

## Message Text

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ACTION EUR-25

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E.O. 11652: ADS DECLAS 11/26/74

SUBJ: ALERT REPORT: COOPERATION BETWEEN INDUSTRY AND GOVERNMENT

1. AT ANNUAL MEETING OF FEDERATION OF MALTAINUSTRIES PRESIDENT LUKE V. GAUCI EXPRESSED APPRECIATION FOR NEW INDUSTRIALIZATION INCENTIVES PACKAGE INTRODUCED LAST JANUARY BY GOM. GAUCI ADDED, HOWEVER, THAT MALTA'S INCENTIVES STILL COMPARE UNFAVORABLY WITH THOSE OFFERED BY OTHER COUNTRIES IN WESTERN EUROPE. GAUCI EXPRESSED HOPE SOME FORM OF INCENTIVES FOR EXAMPLE, COULD BE GIVEN TO ESTABLISHED, UNAIDED INDUSTRIES WISHING TO EXPAND AND EXPORT. "THESE INCENTIVES COULD BE IN THE FORM OF EXTENSION OF SERVICES SUCH AS AN INCREASED IN THE ELECTRIC POWER SUPPLY, WITHOUT THE IMPOSITION OF THE PRESENT HIGH CHARGES WHICH DETER EXPANSION." GAUCI ALSO EXPRESSED APPRECIATION FOR GOM'S EFFORTS RESTRAIN INFLATION, WHILE AT THE SAME TIME ASKING FOR SOME FORM OF COMPENSATION TO EXPORT BASED INDUSTRIES WHICH SUFFER LOSSES (ON EXPORTS TO U.K., FOR EXAMPLE) AS A RESULT

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OF PRESENT FOREIGN EXCHANGE POLICIES.

2. MINISTER OF TRADE, INDUSTRY, AGRUCULTURE AND TOURISM PAUL XUEREB REPLIED SAYING COOPERATION BEWTEEN MANAGEMENT AND WORKERS, AS WELL AS INDUSTRIALISTS AND GOVERNMENT,IS REGARDED BY THE CURREND MLP ADMINISTRATION AS BEING VERY IMPORTANT. XUEREB ADDED THAT SUCCESS OF THE NEW INCENTIVES PACKAGE, INTRODUCES EARLY THIS YEAR, "IS CONFIRMED BY THE NUMBER OF APPLICATIONS RECEIVED BY THE MALTA DEVELOPMENT CORPORATION AND THE NUMBER OF NEW(INDUSTRIAL) PROJECTS AND EXPANSIONS APPROVED SINCE JANUARY LAST YEAR." HE SAID EXPORTS INCREASED MORE THAN SIX MILLION MALTA POUNDS DURING THE FIRST NINE MONTHS OF 1973 AND THAT A NEW TREND HAD BEEN ESTABLISHED WHEREBY EXPORTS TO CONTINENTAL EUROPE ARE INCREASING AT A FASTER RATE THAN THOSE TO THE U.K. THE EFFECT OF THIS TREND IS TO REDUCE MALTA'S DEPENDENCE ON ONE MARKET. HE ADDED MALTA'S FLOATING EXCHANGE RATE POLICY (WHICH PUTS THE MALTA POUND AT A PREMIUM OVER STERLING) CANNOT BE MODIFIED UNTIL STABILITY IS RE-ESTABLISHED AT THE INTERNATIONAL LEVEL.

3. ZUEREB ALSO APPEALED TO INDUSTRIALISTS TO CULTIVATE EEC MARKETS. HE SAID GOVERNMENT ON ITS PART IS PRESENTLY NEGOTIATING WITH THE COMMON MARKET, SEEKING CONCESSIONS ON AGRICULTURAL PRODUCTS AND THE RELAXATION OF RULES OF ORIGIN WITH REGARD TO CERTAIN INDUSTRIAL PRODUCTS, MAINLY TEXTILES. AS A DEVELOPING COUNTRY MALTA HAS ALSO PUT IN A REQUEST TO BENEFIT FROM THE COMMON MARKET'S GENERALIZED SYSTEM OF PREFERENCES.

4. COMMENT: ZUEREB'S COMMENTS ABOUT COOPERATION BWTWEEN INDUSTRIALISTS AND GOVERNMENT, AND ABOUT SUCCESS OF NEW INCENTIVES PACKAGE, MUST BE TAKEN WITH A GRAIN OF SALT. GOM HAS A POOR RECORD OF CONSULTATION WITH FEDERATION OF INDUSTRIES, CHAMBER OF COMMERCE, AND OTHER BUSINESSES BODIES, NOR HAS THERE BEEN EVIDENCE THAT GOM HAS BEEN INFLUENCED BY THESE BODIES WHEN THEY OFFER THEIR VIEWS. SIMILARLY INSTANCES OF NEW INDUSTRIAL OR EXPANSION OF EXISTING ENTERPRISES DUE TO NEW INCENTIVES PROGRAM ARE RARE. ZUEREB'S REMARKS RECALL MINTOFF'S PUBLIC CLAIM THAT WORLD BANK TEAM TOLD HIM INCENTIVES PROGRAM WAS "TOO GENEROUS". WE UNDERSTAND LIMITED OFFICIAL USE

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IBRD IN FACT HOLDS OPPOSITE VIEW.

5. NEVERTHELESS, ATMOSPHERE OF EXCHANGE IS EXAMPLE OF SOME LESSENING OF THE TENSION BETWEEN GOM AND BUSINESS GROUPS.GETZ

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